

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Western Washtenaw Recycling Authority	County Washtenaw
Audit Date December 31, 2005	Opinion Date May 3, 2006	Date Accountant Report Submitted to State: June 28, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

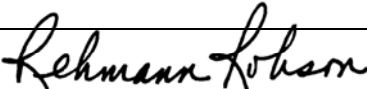
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON MARK KETTNER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

WESTERN WASHTENAW RECYCLING AUTHORITY

Chelsea, Michigan

ANNUAL FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2005**



REHMANN ROBSON

Certified Public Accountants

WESTERN WASHTENAW RECYCLING AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

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BAKER TILLY
INTERNATIONAL

INDEPENDENT AUDITORS' REPORT

May 3, 2006

Board of Directors
Western Washtenaw Recycling Authority
Chelsea, Michigan

We have audited the accompanying financial statements of the **WESTERN WASHTENAW RECYCLING AUTHORITY** as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Western Washtenaw Recycling Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Western Washtenaw Recycling Authority, as of December 31, 2005, and the changes in its financial position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Western Washtenaw Recycling Authority has not presented Management's Discussion and Analysis as required supplementary information. The GASB has determined that such information is necessary to supplement, although not required to be part of, the basic financial statements.

FINANCIAL STATEMENTS

WESTERN WASHTENAW RECYCLING AUTHORITY
STATEMENT OF NET ASSETS
December 31, 2005

ASSETS

Current assets

Cash and cash equivalents	\$ 157,970
Amounts on deposit with Washtenaw Count	775,062
Special assessments receivable	241,559
Accounts receivable	19,510
	<hr/>

Total current assets	<u>1,194,101</u>
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Capital assets

Buildings	264,059
Equipment	766,500
	<hr/>
Total	1,030,559
Less: Accumulated depreciation	444,746
	<hr/>

Net capital assets	<u>585,813</u>
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Total assets	<u><u>\$ 1,779,914</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities

Accrued liabilities	\$ 45,558
Accrued wages	12,730
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Total liabilities	<u>58,288</u>
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Net assets

Investment in capital assets	585,813
Unrestricted	1,135,813
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Total net assets	<u>1,721,626</u>
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Total liabilities and net assets	<u><u>\$ 1,779,914</u></u>
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The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND
CHANGES IN NET ASSETS
For the Year Ended December 31, 2005

Operating revenue	
Special assessments	\$ 268,548
Sale of recycled materials	352,992
Other revenue	2,958
	<hr/>
Total operating revenue	624,498
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Operating expenses	
Personnel services	293,087
Contractual services	39,326
Supplies	8,253
Transportation	27,642
Utilities	9,752
Repairs and maintenance	83,214
Insurance	16,775
Depreciation	61,735
Promotion and advertising	807
Miscellaneous	22,469
	<hr/>
Total operating expenses	563,060
	<hr/>
Operating income	61,438
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Non-operating revenue and expense	
Gain on sale of property and equipment	34,667
Interest revenue	36,076
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Total non-operating revenue	70,743
	<hr/>
Change in net assets	132,181
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Net assets, beginning of year	1,589,445
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Net assets, end of year	\$ 1,721,626
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The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2005

Cash flows from operating activities

Cash received from customers, residents and users	\$ 646,209
Other operating receipts	2,958
Cash paid to employees	(292,971)
Cash paid to suppliers	<u>(218,989)</u>

Net cash provided by operating activities	<u>137,207</u>
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**Cash flows from capital and related
financing activities**

Purchase of property and equipment	(191,147)
Proceeds from sale of property and equipment	<u>43,300</u>

Net cash used for capital and related financing activities	<u>(147,847)</u>
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Cash flows from investing activities

Interest earned on investments	<u>36,076</u>
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Net increase in cash and cash equivalents	25,436
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Cash and cash equivalents, beginning of year	<u>132,534</u>
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Cash and cash equivalents, end of year	<u><u>\$ 157,970</u></u>
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**Reconciliation of operating income to net
cash provided by operating activities:**

Operating income	\$ 61,438
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	61,735
Changes in assets and liabilities	
Amount on deposit with Washtenaw County	10,107
Special assessments receivable	5,598
Accounts receivable	8,964
Accrued liabilities	(10,751)
Accrued wages	<u>116</u>

Net cash provided by operating activities:	<u><u>\$ 137,207</u></u>
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The accompanying notes are an integral part of these financial statements.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Western Washtenaw Recycling Authority (“Authority”) provides recycling services primarily for the benefit of citizens within the Authority’s special assessment districts in Washtenaw County, Michigan. The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government’s accounting policies are described below.

Reporting Entity

The Authority is governed by a Board of Directors that is appointed by the member municipalities. As required by generally accepted accounting principles, these financial statements present the Western Washtenaw Recycling Authority. The Authority has no component units that are required to be included in the financial statements.

Basis of Accounting

The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

The Authority is accounted for on a cost of services or *economic resources* measurement focus. This means that all liabilities (whether current or non-current) associated with its activity are included on the statement of net assets and its operating statement presents increases (revenues) and decreases (expenses) in net assets.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

Cash and Cash Equivalents

The Authority considers all investments purchased with an original maturity of three months or less to be cash equivalents.

Investments

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Amounts On Deposit With Washtenaw County

The Authority has an account with Washtenaw County whereby special assessment payments are collected and certain disbursements are approved. The account was set up to provide assurance that the monies received from special assessments would be properly accounted for and disbursed.

Property and Equipment

Capital assets, which include property and equipment, are recorded at cost. Donated capital assets, if any, are recorded at estimated fair value at the date of donation. Maintenance and repairs are charged to expense as incurred and renewals and betterments are capitalized on the basis of cost. Depreciation is computed under the straight-line method at annual rates which are sufficient to amortize the gross carrying amounts over the estimated useful lives of the assets, which are as follows:

	<u>Years</u>
Buildings and building improvements	15-50
Equipment, furniture and fixtures	7-20

2. CASH AND CASH EQUIVALENTS

At year end, the carrying amount of deposits for the Authority was \$157,970. The combined bank balance was \$249,507. Of the bank balance, \$100,000 was covered by federal depository insurance. The remaining balance of \$149,507 was uninsured and uncollateralized.

WESTERN WASHTENAW RECYCLING AUTHORITY

Notes To Financial Statements

3. CAPITAL ASSETS

The Authority's capital assets activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated:				
Buildings	\$ 264,059	\$ -	\$ -	\$ 264,059
Equipment	719,388	191,147	(144,035)	766,500
Less accumulated depreciation for:				
Buildings	(56,132)	(5,275)	-	(64,407)
Equipment	<u>(462,281)</u>	<u>(56,460)</u>	<u>135,402</u>	<u>(383,339)</u>
Capital assets, net	<u>\$ 465,034</u>	<u>\$ 129,412</u>	<u>\$ (8,633)</u>	<u>\$ 585,813</u>

4. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits. The Authority uses commercial insurance for all claims other than workers' compensation claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation claims.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



May 3, 2006

To the Board of Directors of the
Western Washtenaw Recycling Authority
Chelsea, Michigan

We have audited the financial statements of Western Washtenaw Recycling Authority for the year ended December 31, 2005, and have issued our report thereon dated May 3, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated March 9, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Western Washtenaw Recycling Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Western Washtenaw Recycling Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Western Washtenaw Recycling Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Western Washtenaw Recycling Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Western Washtenaw Recycling Authority, either individually or in the aggregate, indicate matters that could have a significant effect on Western Washtenaw Recycling Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Western Washtenaw Recycling Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum are intended for the use of the Board of Directors, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Western Washtenaw Recycling Authority

Comments and Recommendations

For the Year Ended December 31, 2005

During our audit we became aware of a certain issue regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding this matter. This memorandum does not affect our report dated May 3, 2005 on the financial statements of Western Washtenaw Recycling Authority.

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Authority's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the Authority lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Authority's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Authority's internal control structure, and cannot not be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

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